

## Dress a Child

Umzumbe Municipality is involved in the poverty reduction campaign which also includes young people who are learners. This campaign aimed at encourages these young people to cope beyond their background. The Ward Councilors working with NGOs and ward Committees that are responsible for well being of Orphans and Vulnerable children identified 2000 learners to benefit from the program. This Task Team worked hand in hand with the schools principals to identify the beneficiaries. All 19 wards participated in the campaign; the campaign was a great success. Other stakeholders that were involved include SASSA, Social Development, UGU District Municipality and the Department of Education. It was stipulated that the beneficiaries should be categorized as Orphans and Children with unemployed parents. The Mayor of the Municipality handed over the uniforms to all schools in 19 wards.

### Handing over of uniforms



## Employment of 38 Women

The main aim of this initiative mainly focused on poverty alleviation. This programme provides job opportunities for 38 women from 19 wards to clean the Community facilities. The identification of the beneficiaries was facilitated by Ward Councilors of the 19 wards in partnership with community members. The beneficiaries of the programme received stipend at the end of the month.

## Christmas party for Orphans and Vulnerable children

To ensure that the interests of special groups are championed, the municipality with its stakeholders such as hospitals, NGOs and Homes for the Orphans, hosted the Christmas party for the orphans and vulnerable children. The Mayor of the municipality took a tour visit to the local hospitals and homes for the orphans to present gifts to the vulnerable children.

## STAKEHOLDERS PARTICIPATION

The focus of the programme is on the establishment and development of community broad based structures as well as citizens to participate in the council processes. The launch of these structures enable community based organizations to voice out their views using this integrated structures.

## Gender

The focus of the programme is addressing the inequality resulted from the stereotyped social construct. Social integration, community supper action and institutional development are the key areas of the programme. The forum planned and implemented capacity building workshops to empower vulnerable groups in terms of dealing with the prejudice in society. The structure played a vital role in the planning of the Women's day commemorations as well as World AIDS day. The aim was to retain self confidence, justice as well as mutual respect.

## Disability

The focus of this programme is to create a platform for disabled people to articulate the needs of the disabled in the Umzumbe area. Consultative meetings of the forum were constantly held. The forum played an active role in the planning and successfully hosting of the Disability Indaba.

## HIV and AIDS

This forum consists of different stakeholders in the Umzumbe area. Its main aim is to consolidate efforts of different stakeholders in dealing with issue of HIV and AIDS as well as interventions. The forum also implemented successful programmes in partnership with the sector government such as workshops and capacity buildings to recommit their vision around HIV and AIDS. The forum also participated in the World AIDS day activities. The programme on distribution of condoms to local taverns and HIV and AIDS awareness campaigns was successfully implemented.

## CHALLENGES

- Umzumbe is a less revenue based Municipality which results in budget constraints for other projects to be implemented efficiently.
- Lack of human resources as the section comprised of a Manager and two Community Development Officers to coordinate all programmes for 19 wards.

## 2.9. DISASTER MANAGEMENT

### Highlights

- The Disaster Management Department has extended its professional support with the appointment of the Fire Fighters.
- The section is in full operation and responsible for responding to emergencies.
- The department has strived towards attaining the goals of the Municipality by providing campaigns and awarenesses on fire and training of volunteers.

### Skills Transfer

Number of trainings have been provided as part of the project. Volunteers were identified to serve as the link between the Municipality and the local community. These Volunteers were recruited from all 19 wards within the Umzumbe Municipality. This was part of the risk reduction plan as the volunteers will be able to identify hazards as well as risks, they report to the department.

### Educational Awareness

Awareness campaigns have been conducted to ensure that the concept is being understood by community members. This was done in conjunction with different stakeholders such as the district municipality, Provincial Disaster Management, Ward committees as well as Traditional Leadership with the Jurisdiction. The conducting of these awarenesses aimed at bringing about the change of attitude toward deep rural communities regarding the dangers posed by fire and safety.

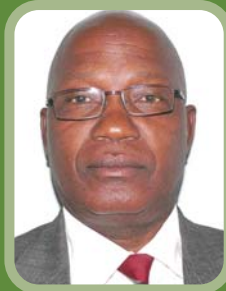
### Challenges

There are number of challenges that exists within the Disaster section

- Lack of equipment availability that are required for particular services
- Long distance travelled to reach the point of impact as Umzumbe is very scattered.
- Lack of vehicles to attend reported cases as emergencies
- Lack of human resources as few Disaster practitioners are servicing 19 wards.
- Lack financial resources to increase the number of trainings as well as awarenesses

## ORGANIZATIONAL MANAGEMENT AND HUMAN RESOURCES

### 3.1 ORGANISATIONAL STRUCTURE



The Acting Municipal Manager:  
**DR. M.J. Ngesi**



Chief Financial Officer  
**Mr. K. Audan**



Director: Technical  
**Mr. C. Mqoboli**



Director: Social and Economic  
Development  
**Mr. P. Cele**



Director: Corporate Services  
**Mrs. P. Shezi**



Senior Manager: Mayoralty  
& Communications  
**Mr. S. Cele**



IDP Manager: Corporate  
**Mr. D. Khuzwayo**

### 3.1.1 EXTENDED TOP MANAGEMENT COMMITTEE



Manager: LED  
**Mrs. N. Ngcobo**



Manager: Budget Treasury  
**Ms. N. Msomi**



Manager: HR  
**Ms. T. Mdubeki**



Manager:  
Project Management Unit  
**Mr. N. Ngcobo**



Manager: Community Services  
**Mr. B. Ngubane**



Manager: SCM  
**Mr. L. Ngidi**



Manager: Income  
& Expenditure  
**Ms. N. Ntanzi**



Executive P A /Manager  
Municipal Manager's Office  
**Mrs. M. Thabede**



Manager:  
Administration  
**Mr. B. Nyuswa**

## 3.2 ORGANATIONAL MANAGEMENT

### Departments

The Municipality has the following five administrative departments:

#### Corporate Services Department

The Corporate Services Department, headed by the Director: Corporate Services includes: Human Resources, Secretariat, Information and Communication Technology (ICT), Registry and Auxiliary Services.

The following are the functional areas of the sections within the Department:

- **Human Resources** - Coordination of sound labour relations, Human Resources management and recruitment strategies, employee wellness, organisational development and Occupational Health and Safety.
- **Secretariat** - Coordination of secretariat support to Council and its committees.
- **ICT** - Ensuring the efficient implementation of information management systems implementation and maintenance of application systems implementation of Enterprise Resource Planning hardware and software maintenance information systems security and general coordination of management of ICT systems.
- **Registry and Auxiliary Services** - Records management, registry management, facilities management, security management, telecommunications and building maintenance

#### Finance Services Department

The Treasury Department includes: Equity and Accounts, Grants and Expenditure, Budget Control and Supply Chain Management.

- **Income and Expenditure** - Coordination of accounts payable, payroll and management of grants received.
- **Budget Control** - Preparation of budget, financial forecasting and preparation of financial statements.
- **Supply Chain Management** - Coordination of procurement of goods and services and management of the supplier database and procurement contracts.

#### Social and Economic Development

The Department is made up of local economic development and community services

#### Planning

- **Community Services** - The section is responsible for all community related programmes to enhance community development and standard way of life.
- **LED** - Facilitating and co-ordinating activities and programmes that would yield shared economic growth and extensive marketing of the district.
- **Strategic Planning** - Responsibilities include the implementation the Municipality's Performance Management System as aligned to the Integrated Development Plan (IDP), and to monitor and report on progress and implementation thereof.

## Technical Services Department

Technical Services Department is mandated to provide infrastructural services.

It is divided into two units i.e. Project Management Unit and Housing Unit

- **Project Management Unit** - responsible for the delivery of infrastructural services through the implementation of MIG funded projects such as access roads, access bridges and community facilities.
- **Housing Unit** - responsible for the provision of adequate shelter for the betterment of humankind through housing delivery. This Unit works in conjunction with the Department of Human Settlement where the Municipality performs the duties of being a developer.

### 3.3 STAFFING INFORMATION

The Municipality currently has 64 permanent staff members employed, with 29 vacant posts as illustrated in the following table:

| FUNCTION            | NO. OF STAFF | NO. OF VACANCIES |
|---------------------|--------------|------------------|
| Municipal Manager's | 16           | 3                |
| Corporate Services  | 21           | 4                |
| Treasury            | 7            | 5                |
| Planning; LED & CS  | 12           | 11               |
| Technical Services  | 8            | 6                |
| Total               | 64           | 29               |

**Table:** Approved Positions

## Policies

Corporate Services Department is responsible for developing and reviewing the policies.

The following policies were developed and in certain cases reviewed during the 2009/2010 financial year.

**The following policies were developed and in certain cases reviewed during the 2009/10 financial year:**

- Skills Retention Policy formulated and approved by Council
- Supply Chain Management Policy reviewed
- Property Rates Policy formulated
- Credit Control Policy amended and approved by Council
- Rules and Orders approved and gazetted
- Workplace Skills Plan (WSP) and Annual Training Report approved and submitted to LGSETA on time
- Telephone and cellphone policy formulated and approved by Council
- Registry Policy Developed

**The following are pension fund schemes in existence in the Municipality:**

- Provident Fund
- Natal Joint Pension Fund

### 3.4 EMPLOYMENT EQUITY

THE FOLLOWING TABLE PROVIDES STAFFING INFORMATION

|                  |          | Region Demographics | Umzumbe-OVERALL |  |       |                   |       |       |                   |     |  |                   |      |  |                 |       |      |       |  |       |       |      |
|------------------|----------|---------------------|-----------------|--|-------|-------------------|-------|-------|-------------------|-----|--|-------------------|------|--|-----------------|-------|------|-------|--|-------|-------|------|
|                  |          |                     | TOP MANAGEMENT  |  |       | SENIOR MANAGEMENT |       |       | MIDDLE MANAGEMENT |     |  | JUNIOR MANAGEMENT |      |  | GENERAL WORKERS |       |      |       |  |       |       |      |
| LEVEL            | Nos. OFF |                     | 0-1             |  | Exist | Diff              | Exist | Ideal | Diff              | 4-6 |  | Exist             | 7-12 |  | Exist           | Ideal | Diff | 13-18 |  | Exist | Ideal | Diff |
|                  |          |                     |                 |  |       |                   |       |       |                   |     |  |                   |      |  |                 |       |      |       |  |       |       |      |
|                  |          |                     | Exist           |  | 3     |                   |       | 1     |                   |     |  | 1                 |      |  | 3               |       |      |       |  |       |       |      |
| African Males    |          |                     | 1               |  |       |                   |       |       |                   |     |  | 1                 |      |  | 9               |       |      |       |  |       |       |      |
| African Females  |          |                     |                 |  |       |                   |       |       |                   |     |  |                   |      |  |                 |       |      |       |  |       |       |      |
| Coloured Males   |          |                     |                 |  |       |                   |       |       |                   |     |  |                   |      |  |                 |       |      |       |  |       |       |      |
| Coloured Females |          |                     |                 |  |       |                   |       |       |                   |     |  |                   |      |  |                 |       |      |       |  |       |       |      |
| Indian Males     |          |                     | 1               |  |       |                   |       |       |                   |     |  |                   |      |  |                 |       |      |       |  |       |       |      |
| Indian Females   |          |                     |                 |  |       |                   |       |       |                   |     |  |                   |      |  |                 |       |      |       |  |       |       |      |
| White Males      |          |                     |                 |  |       |                   |       |       |                   |     |  |                   |      |  |                 |       |      |       |  |       |       |      |
| White Females    |          |                     |                 |  |       |                   |       |       |                   |     |  |                   |      |  |                 |       |      |       |  |       |       |      |
| Other Males      |          |                     |                 |  |       |                   |       |       |                   |     |  |                   |      |  |                 |       |      |       |  |       |       |      |
| Other Females    |          |                     |                 |  |       |                   |       |       |                   |     |  |                   |      |  |                 |       |      |       |  |       |       |      |
| Total            |          |                     |                 |  |       |                   |       |       |                   |     |  |                   |      |  |                 |       |      |       |  |       |       |      |

Table:EMPLOYMENT EQUITY STATISTICS

### 3.4 Human Resource Profile

A total of 21 employees received training in the 2009/10 financial year . Other trainings were funded by LGSETA for pay day training and KWANALOGA.

#### Minimum Competency Levels for Senior Management

| Official                             | A                                                                                  | B                                                                          | C                             | D                                                                                        | E                                                                                                                    | F                                                                                                     |
|--------------------------------------|------------------------------------------------------------------------------------|----------------------------------------------------------------------------|-------------------------------|------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
|                                      | Total number of officials employed by a municipality (Regulation 14(4)(a) and (c)) | Total of officials employed by municipal entities (Regulation 14(a)and(c)) | Consolidated:Total of A and B | Consolidated: Competency assessments completed for A and B (Regulation 14(4)(b) and (d)) | Consolidated: Total number of officials whose performance agreements comply with Regulation 16 (Regulation 14(4)(f)) | Consolidated: Total number of officials that meet prescribed competency levels (Regulation 14 (4)(e)) |
| FINANCIAL OFFICIAL                   |                                                                                    |                                                                            |                               |                                                                                          |                                                                                                                      |                                                                                                       |
| Accounting Officer                   | 1                                                                                  | -                                                                          | 1                             | 1                                                                                        | 1                                                                                                                    | 1                                                                                                     |
| Chief Financial Office               | 1                                                                                  | -                                                                          | 1                             | 1                                                                                        | 1                                                                                                                    | 1                                                                                                     |
| Senior Manager                       | 6                                                                                  | -                                                                          | 6                             | 6                                                                                        | 5                                                                                                                    | 6                                                                                                     |
| Any other Financial Officials        | 8                                                                                  | -                                                                          | 8                             | 8                                                                                        | -                                                                                                                    |                                                                                                       |
| SUPPLY CHAIN MANAGEMENT OFFICIALS    |                                                                                    |                                                                            |                               |                                                                                          |                                                                                                                      |                                                                                                       |
| Head of supply chain management unit | 1                                                                                  | -                                                                          | 1                             | 1                                                                                        | -                                                                                                                    | 1                                                                                                     |
| Supply chain Management Managers     | 1                                                                                  | -                                                                          | 1                             | 1                                                                                        | -                                                                                                                    | 1                                                                                                     |
| Total                                | 18                                                                                 | -                                                                          | 18                            | 18                                                                                       | 7                                                                                                                    | 10                                                                                                    |

### 3.5 Skills Development

The Municipal Finance Management Act, Sections 83, 107 & 119 prescribe that the Accounting Officer, Senior Managers, the Chief Financial Officer and other financial officials of a municipality must meet the financial management competency levels prescribed by regulation. National Treasury issued regulations on Minimum Competency Levels on the 15 June 2007 the regulation prescribe the minimum competency levels for the following categories of employees:

- Accounting Officers of Municipalities and Municipal entities;
- Chief Financial Officers of Municipalities and Municipal entities;
- Senior Managers of Municipalities and Municipal entities;
- Other Financial Officials of Municipalities and municipal entities; and
- Supply Chain Management Officials of Municipalities and Municipal entities.

The regulations further require each municipality to report in its Annual Report a consolidated information in respect of progress made in the attainment of minimum competency levels by the above mentioned category of employees.

- 3 employees enrolled for formal qualifications (2 with Unisa and 1 with University of Jo'burg) (ongoing)
- 2 employees trained and graduated in CPMD
- 4 employees enrolled for Project Management (DBSA)
- 4 employees enrolled for advance Project Management (DBSA - ongoing)
- 5 employees attending ABET (ongoing)
- 5 employees trained on Customer satisfaction
- 3 employees trained on minutes taking and report writing
- 3 employees trained on AAT (finance)
- 3 employees trained on Bargaining and Labour Legislation Training
- 1 employee trained on payday (HR Module)
- 8 employees (graduates) attended computer training

## Training for councillors

Due to the leadership change in 2006, the majority of the Councilors needed to be trained in various aspects of institutional development and good governance. The main aim of the training was to provide continuous capacity building to the Councilors so as to allow them to take informed decisions for service delivery. As noted above, the majority of the Councilors have been trained largely on issues of good governance and institutional development.

As part of the strategy to speed up service delivery, the municipality has been able to comply with the Cogta requirement by confirming all the councilors who sit in the EXCO into full-time status. This has given the municipality extra capacity in service delivery and it has provided an opportunity to the leadership to interact on daily basis on developmental issues.

Below is the number of Councillors who were trained on different programmes:

- 15 Councillors trained on financial reporting
- 2 Councillors trained and graduated in CPMD
- 1 Councillor trained for Project Management
- 1 Councillor studied for Tourism
- 2 Councillors trained and graduated in ELMDP

## 3.6 DISCLOSURES

### Remuneration of Councillors

## 3.5 DISCLOSURES

### Remuneration of Councillors

| COUNCILLOR                 | TOTAL COST (R) |            |
|----------------------------|----------------|------------|
|                            | 2008/2009      | 2009/2010  |
| Mayor                      | 515 742,31     | 478 142,84 |
| Deputy Mayor               | 414 422,98     | 453 387,08 |
| Speaker                    | 276 911,70     | 399 909,65 |
| Executive Committee Member | 323 577,36     | 409 799,52 |
| Councillor                 | 187 290,36     | 189 207,48 |

### Remuneration of Senior Management

| Municipal Manager                      | 2008/2009         | 2009/2010         |
|----------------------------------------|-------------------|-------------------|
| Annual remuneration                    | 331 398,00        | 349 775,00        |
| Car allowance and Telephone allowances | 202 201,00        | 223 268,00        |
| Performance bonus                      | -                 | 39 800,00         |
| Housing allowance                      | 55 233,00         | 55 233,00         |
| Other                                  | -                 | 12 644,00         |
| <b>Total</b>                           | <b>588 832,00</b> | <b>680 720,00</b> |

| Chief Financial Officer | 2008/2009 | 2009/2010 |
|-------------------------|-----------|-----------|
|                         |           |           |

|                                        |                   |                   |
|----------------------------------------|-------------------|-------------------|
| Annual remuneration                    | 221 799,00        | 358 450,00        |
| Car allowance and Telephone allowances | 155 515,00        | 89 920,00         |
| Performance bonus                      | 34 310,00         | -                 |
| Housing allowance                      | 3 610,00          | -                 |
| Other                                  | -                 | 3 764,00          |
| <b>Total</b>                           | <b>415 234,00</b> | <b>452 134,00</b> |

|                                        |                   |                   |
|----------------------------------------|-------------------|-------------------|
| <b>Corporate Services Director</b>     | <b>2008/2009</b>  | <b>2009/2010</b>  |
| Annual remuneration                    | 331 182,00        | 421 287,00        |
| Car allowance and Telephone allowances | 111 263,00        | 123 519,00        |
| Performance bonus                      | -                 | 30 324,00         |
| Housing allowance                      | -                 | -                 |
| Other                                  | -                 | 11 728,00         |
| <b>Total</b>                           | <b>442 445,00</b> | <b>586 858,00</b> |

|                                        |                   |                   |
|----------------------------------------|-------------------|-------------------|
| <b>Technical Services Director</b>     | <b>2008/2009</b>  | <b>2009/2010</b>  |
| Annual remuneration                    | 267 501,00        | 306 875,00        |
| Car allowance and Telephone allowances | 94 221,00         | 87 291,00         |
| Performance bonus                      | -                 | 30 324,00         |
| Housing allowance                      | 71 478,00         | 45 696,00         |
| Other                                  | -                 | 3 504,00          |
| <b>Total</b>                           | <b>433 200,00</b> | <b>473 690,00</b> |

|                                               |                  |                   |
|-----------------------------------------------|------------------|-------------------|
| <b>Social and Community Services Director</b> | <b>2008/2009</b> | <b>2009/2010</b>  |
| Annual remuneration                           | -                | 221 127,00        |
| Car allowance and Telephone allowances        | -                | 134 015,00        |
| Performance bonus                             | -                | -                 |
| Housing allowance                             | -                | -                 |
| Other                                         | -                | 2 654,00          |
| <b>Total</b>                                  | <b>-</b>         | <b>357 796,00</b> |

## FINANCIAL STATEMENTS AND OTHER RELATED FINANCIAL INFORMATION

### AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON UMZUMBE MUNICIPALITY

#### REPORT ON THE FINANCIAL STATEMENTS

##### Introduction

1. I have audited the accompanying financial statements of the Umzumbe Municipality, which comprise the statement of financial position 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to ....

##### Accounting Officer's Responsibility for the Financial Statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

##### Auditor-General's Responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of MFMA, my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 et seq. of: GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Umzumbe Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Opinion

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umzumbe Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended in accordance with SA Standards of GRAP described on note 1 to the financial statements and in the manner required by the MFMA and DoRA.

## Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Irregular Expenditure

10. As disclosed in note 22 to the financial statements, irregular expenditure to the amount of R2, 881 million was incurred, due to non compliance with the Municipal System's Act relating to the employment contracts and performance bonuses of section 57 managers. A further R1, 677 million of irregular expenditure was incurred as supply chain management regulations were not adhered to.

## Unauthorised Expenditure

11. As disclosed in note 20 to the financial statements, unauthorised expenditure to the amount of R2, 404 million was incurred, as the total budget was exceeded.

## Reliability of reported performance information

The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?

- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

### **Lack of reporting on all Predetermined Objectives in the Annual Report**

18. The Umzumbe Municipality has not reported on all the predetermined objectives.

There was no reporting on the key performance indicator namely delivery of portable water to 70 storage tanks.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

### **Local Government: Municipal Finance Management Act of South Africa**

#### **Unauthorised Expenditure**

19. The accounting officer did not take steps to prevent unauthorised expenditure as required by section 62(1)(d) of the MFMA.

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

- Irregular expenditure as defined in section 1 of the MFMA, was incurred due to non compliance with section 22 of the Municipal Supply Chain Management Regulations relating to competitive bidding.

#### **Expenditure was incurred in contravention of or not in Accordance with Applicable Legislation Resulting in Irregular Expenditure**

20. irregular expenditure as defined in section 1 of the MFMA, was incurred due to non compliance with section 22 of the Municipal Supply Chain Management Regulations relating to competitive bidding.

#### **Fruitless and Wasteful Expenditure**

21. The accounting officer did not take steps to prevent fruitless and wasteful expenditure as required by section 62(1)(d) of the MFMA.

#### **The Financial Statements were not prepared in accordance with applicable Legislation**

22. Contrary to the requirements of section 122(1)(a) of the MFMA, the municipality made material adjustments to the annual financial statement that was submitted for audit. The material adjustments comprised of disclosure of unauthorised and irregular expenditure and amendments to the cash paid and cash received in the cash flow statement.

### Payments not made within thirty days of receiving invoice

23. The accounting officer did not ensure that all payment were made within thirty days of receiving the invoice as required by section 65(2)(e) of the MFMA

### Local Government: Municipal Systems Act

24. Managers directly accountable to the municipal manager were not appointed in terms of written employment contracts with the municipality as required by section 57(1)(a) of the Municipal System's Act. Some of these managers also did not have performance contracts in terms of section 57(1)(b) of this act. The salaries and performance bonuses paid to these employees during the financial year resulted in irregular expenditure.

### Internal Control

25. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, but not for the purpose of expressing an opinion on the effectiveness of internal control.

26. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

### Leadership

27. The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

### Financial and Performance Management

28. The financial statements were not sufficiently reviewed for accuracy and compliance before submission for audit.

### Investigations

29. There has been an ongoing investigation emanating from the previous year of assessment involving the misappropriation of funds

Pietermaritzburg

30 November 2010





**Umzumbe Local Municipality**  
Annual Financial Statements  
For the year ended 30 June 2010

**Auditor General**  
Issued 31 August 2010

## Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2010

### General Information

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|                                    |                                         |
|------------------------------------|-----------------------------------------|
| <b>Legal form of entity</b>        | Municipality                            |
| <b>Mayoral committee</b>           |                                         |
| Executive Mayor                    | Gumede S.T.                             |
| Councillors                        | Dlamini N.Y.                            |
|                                    | Ngcobo S.R.                             |
|                                    | Msomi D.K.                              |
|                                    | Ngcobo M.R.                             |
|                                    | Mqadi M.R.                              |
|                                    | Nkomo. P.Z.                             |
|                                    | Mchunu G.M.                             |
|                                    | Peters T.L.                             |
|                                    | Ngcongco M.J.                           |
|                                    | Mkhize J.M.                             |
|                                    | Mntambo L.M.                            |
|                                    | Chiliza Z.T.                            |
|                                    | Mbhele K.B.M.                           |
|                                    | Luthuli M.Z.                            |
|                                    | Shozi D.Z.                              |
|                                    | Shozi Z.B.                              |
|                                    | Sithole S.C.                            |
|                                    | Shozi M.P.                              |
|                                    | Duma Y.L.                               |
|                                    | Zuma S.M.                               |
|                                    | Chiliza M.A.                            |
|                                    | Dlungwana M.A.                          |
|                                    | Shezi C.L.                              |
|                                    | Ngcobo J.P.                             |
|                                    | Chiliza S.D.                            |
|                                    | Doncabe K.S.                            |
|                                    | Khuzwayo T.M.                           |
|                                    | Luthuli B.B.                            |
|                                    | Shozi B.N.                              |
|                                    | Ngcobo N.I.                             |
|                                    | Ngcobo A.T.S.                           |
|                                    | Qumbisa E..                             |
|                                    | Mpisane C.N.                            |
|                                    | Dlamini K.O.                            |
|                                    | Shezi M.T.                              |
|                                    | Ngcobo L.M.R.                           |
| <b>Accounting Officer</b>          | Mbhele TB (Resigned 31 July 2010)       |
| <b>Chief Finance Officer (CFO)</b> | Audan K.                                |
| <b>Accounting Officer</b>          | Ngesi MJ (DR) (Appointed 1 August 2010) |
| <b>Registered office</b>           | P.O. Box 561<br>Hibberdeen<br>4220      |
| <b>Business address</b>            | P.O. Box 561<br>Hibberdeen<br>4220      |
| <b>Bankers</b>                     | ABSA Bank Limited                       |
| <b>Auditors</b>                    | Auditor General                         |

## Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2010

### Index

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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#### Abbreviations

|       |                                                  |
|-------|--------------------------------------------------|
| CRR   | Capital Replacement Reserve                      |
| DBSA  | Development Bank of South Africa                 |
| GRAP  | Generally Recognised Accounting Practice         |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| HDF   | Housing Development Fund                         |
| IMFO  | Institute of Municipal Finance Officers          |
| ME's  | Municipal Entities                               |
| MEC   | Member of the Executive Council                  |
| MFMA  | Municipal Finance Management Act                 |
| MIG   | Municipal Infrastructure Grant (Previously CMIP) |

A report of the accounting officer has not been prepared as the municipality is a wholly owned controlled entity of which is incorporated in South Africa.

## Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2010

### Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2011 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the grant allocations through the Division of revenue act (Dora) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Umzumbe Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's Chief Financial Officer.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 27, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2010 and were signed on its behalf by:

**Ngesi MJ (DR) (Appointed 1 August 2010)**  
**Municipal Manager**

## Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2010

### Statement of Financial Position

| Figures in Rand                         | Note(s) | 2010               | 2009              |
|-----------------------------------------|---------|--------------------|-------------------|
| <b>Assets</b>                           |         |                    |                   |
| <b>Current Assets</b>                   |         |                    |                   |
| Operating lease asset                   | 3       | 47 112             | -                 |
| Other receivables                       | 4       | 248 166            | 129 270           |
| VAT receivable                          | 5       | 5 951 605          | 3 051 044         |
| Consumer debtors                        | 6       | 595 478            | -                 |
| Cash and cash equivalents               | 7       | 19 786 493         | 9 777 053         |
|                                         |         | <b>26 628 854</b>  | <b>12 957 367</b> |
| <b>Non-Current Assets</b>               |         |                    |                   |
| Property, plant and equipment           | 2       | 84 316 397         | 58 441 227        |
| <b>Total Assets</b>                     |         | <b>110 945 251</b> | <b>71 398 594</b> |
| <b>Liabilities</b>                      |         |                    |                   |
| <b>Current Liabilities</b>              |         |                    |                   |
| Trade and other payables                | 11      | 6 514 803          | 3 971 011         |
| Unspent conditional grants and receipts | 9       | 15 796 416         | 8 886 763         |
| Provisions                              | 10      | 979 985            | 806 672           |
| Bank overdraft                          | 7       | -                  | 441 670           |
|                                         |         | <b>23 291 204</b>  | <b>14 106 116</b> |
| <b>Total Liabilities</b>                |         | <b>23 291 204</b>  | <b>14 106 116</b> |
| <b>Net Assets</b>                       |         | <b>87 654 047</b>  | <b>57 292 478</b> |
| <b>Net Assets</b>                       |         |                    |                   |
| Accumulated surplus                     |         | 87 654 047         | 57 292 478        |

## Statement of Financial Performance

### Revenue

|                               |    |                   |                   |
|-------------------------------|----|-------------------|-------------------|
| Property rates                | 12 | 771 400           | -                 |
| Interest received             |    | 1 558 947         | 963 629           |
| Government grants & subsidies | 13 | 79 405 298        | 62 384 114        |
| Other income                  |    | 1 231 369         | 653 835           |
| <b>Total Revenue</b>          |    | <b>82 967 014</b> | <b>64 001 578</b> |

### Expenditure

|                               |    |                     |                     |
|-------------------------------|----|---------------------|---------------------|
| Employee related costs        | 15 | (13 751 329)        | (11 656 187)        |
| Remuneration of councillors   | 16 | (8 092 320)         | (7 636 820)         |
| Depreciation and amortisation |    | (3 626 133)         | (3 254 307)         |
| Impairment loss               |    | (3 020 210)         | -                   |
| Finance costs                 |    | -                   | (8 579)             |
| Debt impairment               |    | (94 139)            | -                   |
| Repairs and maintenance       |    | (459 048)           | (114 874)           |
| Community participation       |    | (1 128 184)         | (4 404 985)         |
| General Expenses              | 14 | (23 858 967)        | (27 596 691)        |
| <b>Total Expenditure</b>      |    | <b>(54 030 330)</b> | <b>(54 672 443)</b> |
| Loss on disposal of assets    |    | (302 345)           | -                   |
| <b>Surplus for the year</b>   |    | <b>28 634 339</b>   | <b>9 329 135</b>    |

## Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2010

### Statement of Changes in Net Assets

| Figures in Rand                                        | Accumulated surplus | Total net assets  |
|--------------------------------------------------------|---------------------|-------------------|
| Opening balance as previously reported                 | 48 279 724          | 48 279 724        |
| Adjustments                                            |                     |                   |
| Prior year adjustments (Note 24)                       | 3 076 329           | 3 076 329         |
| Reallocation of balance                                | 93 340              | 93 340            |
| Assets under construction                              | (3 486 050)         | (3 486 050)       |
| <b>Balance at 01 July 2008</b>                         | <b>47 963 343</b>   | <b>47 963 343</b> |
| Changes in net assets                                  |                     |                   |
| Surplus for the year                                   | 9 329 135           | 9 329 135         |
| Total changes                                          | 9 329 135           | 9 329 135         |
| Opening balance as previously reported                 | 58 018 581          | 58 018 581        |
| Adjustments                                            |                     |                   |
| Prior adjustment on Accumulated depreciation (Note 24) | 1 541 548           | 1 541 548         |
| Prior year error (Note 24)                             | (732 766)           | (732 766)         |
| Prior year adjustments (Note 24)                       | 192 345             | 192 345           |
| <b>Balance at 01 July 2009</b>                         | <b>59 019 708</b>   | <b>59 019 708</b> |
| Changes in net assets                                  |                     |                   |
| Surplus for the year                                   | 28 634 339          | 28 634 339        |
| Total changes                                          | 28 634 339          | 28 634 339        |
| <b>Balance at 30 June 2010</b>                         | <b>87 654 047</b>   | <b>87 654 047</b> |
| Note(s)                                                |                     |                   |

### Cash flow statement

| Figures in Rand                                                        | Note(s) | 2010                | 2009                |
|------------------------------------------------------------------------|---------|---------------------|---------------------|
| <b>Cash flows from operating activities</b>                            |         |                     |                     |
| <b>Receipts</b>                                                        |         |                     |                     |
| Cash receipts for equitable share, conditional grants and from debtors |         | 79 130 320          | 66 543 232          |
| Interest received                                                      |         | -                   | 963 633             |
|                                                                        |         | <b>79 130 320</b>   | <b>67 506 865</b>   |
| <b>Payments</b>                                                        |         |                     |                     |
| Finance costs                                                          |         | -                   | (8 579)             |
| Cash paid to suppliers and employees                                   |         | (37 619 148)        | (44 524 051)        |
|                                                                        |         | <b>(37 619 148)</b> | <b>(44 532 630)</b> |
| <b>Net cash flows from operating activities</b>                        | 17      | <b>41 511 172</b>   | <b>22 974 235</b>   |
| <b>Cash flows from investing activities</b>                            |         |                     |                     |
| Purchase of property, plant and equipment                              | 2       | (31 136 407)        | (21 550 413)        |
| Proceeds from sale of property, plant and equipment                    | 2       | 134 440             | -                   |
| Other cash item                                                        |         | (58 095)            | -                   |
| <b>Net cash flows from investing activities</b>                        |         | <b>(31 060 062)</b> | <b>(21 550 413)</b> |
| <b>Net increase/(decrease) in cash and cash equivalents</b>            |         | <b>10 451 110</b>   | <b>1 423 822</b>    |
| Cash and cash equivalents at the beginning of the year                 |         | 9 335 383           | 7 911 561           |
| <b>Cash and cash equivalents at the end of the year</b>                | 7       | <b>19 786 493</b>   | <b>9 335 383</b>    |

## Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2010

### Accounting Policies

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#### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

##### 1.1 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

|                            |    |
|----------------------------|----|
| Infrastructure             |    |
| • Leveling Drains on roads | 20 |
| • Roads construction       | 10 |
| • Road gravelling          | 10 |

## Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2010

### Accounting Policies

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#### 1.1 Property, plant and equipment (continued)

|                          |    |
|--------------------------|----|
| • Borehole pump          | 15 |
| Other                    |    |
| • Buildings              | 30 |
| • Furniture and Fittings | 8  |
| • Motor Vehicles         | 5  |
| • Computer equipment     | 5  |
| Plant and Equipment      |    |
| • Tip Trailer            | 15 |
| • Furrow Plough          | 5  |
| • Harrow Offset          | 5  |
| • Tractors               | 10 |
| • Hydroponic Tunnel      | 10 |
| • Grader                 | 15 |
| • TLB                    | 15 |

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

#### 1.2 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable

## Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2010

### Accounting Policies

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#### 1.2 Intangible assets (continued)

limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item                     | Useful life |
|--------------------------|-------------|
| Computer software, other | 3 years     |

#### 1.3 Financial instruments

##### Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

##### Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

##### Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

#### 1.4 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

## Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2010

### Accounting Policies

---

#### 1.4 Leases (continued)

##### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

#### 1.5 Employee benefits

##### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

##### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

##### Defined benefit plans

The defined benefit obligation, the related current cost and where applicable, past-service cost, is determined by using the Projected Unit Credit Method. A portion of the actuarial gains and losses is recognized as revenue or expense, provided the net cumulative actuarial gains and losses at the end of the previous reporting period exceed greater of:

- 10% of the present value of the defined benefit obligation at that date before deducting plan assets; and
- 10% of the fair value of the plan assets.

The portion of the actuarial gains and losses to be recognized is equal to the excess calculated, using the above limits and divided by the expected average remaining working lives of the employees participating in the plan. Unvested past-service costs are recognized as an expense in the Statement of Financial Performance.

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

##### Pension, Provident, Retirement Benefits and Group Life Scheme

The municipality provides retirement benefits for its employees in the form of both defined benefit and defined contribution plans. The municipality is no longer providing a retirement benefits for the councilors, because they are now getting a total package.

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement. A defined contribution plan is a plan under which the municipality pays a fixed contribution into a separate entity. The municipality has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior period.

The contributions to fund obligations for the payment of retirement benefits are charged against the revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognized as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.

The municipality also contributes in a Group Life Scheme for all employees in the event of their death other than section 57 employees.